



2016 Top Markets Report **Building Products and Sustainable Construction** Country Case Study

Gulf Region

Ongoing priority construction activity in the Member States of the Gulf Cooperation Council (GCC) and broad regional interest in green building drive expectations of continuing opportunity for U.S. building product exporters in the Gulf Region through 2018. Free trade agreements enable duty free access to markets in Bahrain and Oman, and U.S. products compete well in the face of a 5 percent common tariff in other GCC markets. Oil price declines have suppressed GCC imports of HVACR, lighting, plumbing products, wood products, insulation, windows and doors and glass since 2014, but longer-term prospects are positive.

Overview of Gulf Region Markets

2018 Export Market Rankings, GCC Member States						
	Saudi Arabia	UAE	Qatar	Oman	Kuwait	Bahrain
HVAC	4	14	36	44	35	54
Lighting	5	15	22	45	52	62
Plumbing	3	4	12	48	43	54
Wood	26	19	52	68	53	60
Insulation	35	17	28	55	18	73
Doors & Windows	5	12	72	34	19	46
Glass	19	5	64	45	10	30

An intensifying commitment to green building has created export opportunities for U.S. companies in the Gulf Region as the countries look to better manage limited water resources and improve energy efficiency. At the same time, recent decreases in oil prices have slowed overall economic growth and driven a dramatic decrease in the level of building product imports for the region as a whole beginning in 2014. Looking toward 2018, expectations of the vitality of construction markets and growth segments vary on a country-by-country basis among the GCC Member States.

Taken together, GCC Member States' imports of U.S. HVACR, lighting, plumbing product, wood product, insulation, door and window and glass imports grew at a healthy 26 percent compound annual growth

rate over the 2009 to 2014 period, even when factoring in dramatic negative 73 percent year-on-year (YoY) decline in GCC building product imports from the U.S. in 2014. During the same 2009 to 2014 period, the GCC's imports from the world overall grew at a rate of 15 percent annually, posting negative 53 percent YoY growth in 2014.

GCC Member States' Approaches to Sustainable Construction

The GCC Member States share a strong interest in increasing building performance to achieve environmental benefits, with energy efficiency and water conservation being key focal areas for the hot, arid climate zone. For some GCC countries, environmental sustainability and efficiency in

building construction are part of government priorities to diversify the economy from oil dependency, promote domestic manufacturing and create jobs. While each country has taken different measures to promote a more sustainably built environment, there also are indications of interest in aligning certain initiatives across the region to facilitate commerce and ensure that the world's leading technologies can be used in regional construction projects.

One such emergent area involves construction codes, specifically the concept of developing a regionally aligned green building code. Such a code would outline minimum requirements for energy and water efficiency, indoor air quality and other core elements of building performance. While this remains a concept under development, the fact that authorities in each country have indicated an interest in exploring a harmonized regional green code bodes well, signaling recognition of the ability of codes, via the standards they reference, to facilitate trade and enable world-tested solutions to address common climate and resource challenges. The current standards and codes environment in the Gulf Region often presents a complex navigational challenge.

Saudi Arabia

Like other Gulf States, Saudi Arabia is focused on diversifying its economy away from the oil and gas sector, including a strong push into supporting the tourism market. Investments in the tourism sector, as well as in infrastructure and residential markets, to support a growing population is projected to fuel growth of Saudi Arabia's construction market at a healthy 11 percent compound annual rate of growth through 2018.¹ Saudi Arabia is expected to continue pursuing expansionary fiscal policy through 2018. The increase in government spending specifically targets healthcare and education, which will include construction of schools, hospitals, major infrastructure projects and some 500,000 new affordable homes.

The Saudi Green Building Forum (SGBF), established recently by the Saudi government, is charged with developing laws and regulations that promote green building initiatives, promoting the collection of standards and systems for green building, disseminating green building information, engaging stakeholders and promoting green building concepts and cultural awareness of green building among

citizens through workshops, conferences and publications. The U.S. Green Building Council's LEED building rating system is recognized in projects in Saudi Arabia, and SGBF is the sole authorized Education Delivery Partner for LEED.

A recent industry survey on global green building trends included investigation of construction industry stakeholders in Saudi Arabia and 10 other countries in the Middle East and North Africa and demonstrated strong growth expectations for green building in Saudi Arabia.² Findings included the following:

- Thirty two percent of respondents from Saudi Arabia indicated an expectation to do 60 percent or more of their work on green projects by 2018, up from 8 percent in 2015.
- New commercial construction (office, retail, hotels) is the top ranking construction sector for 44 percent of respondents from Saudi Arabia.
- Nearly as many respondents expect to do green projects in new institutional construction (schools, hospitals, public buildings) in the next three years.
- Just 22 percent of respondents in Saudi Arabia indicated an expectation of involvement in green retrofit of existing buildings in Saudi Arabia, and just 13 percent indicated that they envision doing green project work in commercial interiors by 2018.

Know Your Buyer

For building product exports, the importance of specific sales channels and buyer categories varies depending on the target export market. In Saudi Arabia, ITA experience supporting U.S. building products exporters indicates the following assignment of priority among relevant sales channels:

Figure 1: Sales Channels	Priority		
	Low	Medium	High
Government entities			X
Architects	X		
Design and build companies		X	
Trade contractors		X	

Building facility managers	X
Distributors	X
Showroom dealers	X
Retailers	X
Other	X

United Arab Emirates (UAE)

Among GCC Member States, the UAE has the greatest industrial diversification, and the government continues to focus on advancing manufacturing, construction and services to create economic activity beyond the oil and gas sector. The UAE construction industry is projected to grow at a 6.5 percent compound annual growth rate through 2019.³ Investment in infrastructure, commercial, residential and energy projects are expected to fuel this growth.

The UAE has the highest share of green buildings in the MENA with 65 percent of the region's green buildings. Construction firms in the UAE are early and strong adopters of green building, reporting in a 2013 global industry survey⁴ that more than half of their ongoing projects were green. The high levels of existing adoption are noted as reflecting government policies and regulations. Among these policies is the existing government mandate that all of its own buildings be green.

In Abu Dhabi, the Urban Planning Council established the Pearl Rating System (PRS) in support of its *Estidama* sustainable development initiative. This system rates the sustainability of residential communities, buildings and villa homes from design to construction to operation, specifically reflecting the requirements of a hot, dry climate zone that requires significant energy for air-conditioning, has a scarcity of water and experiences high evaporation as well as infrequent rain. The PRS establishes guidance and requirements, with five possible levels of certification. The system includes eight categories of mandatory and voluntary credits, and all mandatory credits must be met to achieve the 1 Pearl rating. All new development projects in Abu Dhabi must achieve at least the 1 Pearl rating, while government office projects must achieve, at minimum, a 2 Pearl certification.

The Green Building Regulations and Specifications was launched in 2012 for public buildings in Dubai

and later in 2014 for the private commercial buildings. The Dubai system is not a rating system but is written as a code list of green features and methodology that need to be met at design stage and implemented in the construction stage. The Green Building Regulations consist of the best international standards adapted to the local conditions of Dubai. The aim is to improve the performance of buildings by reducing the consumption of energy, water and materials; improving public health, safety and general welfare; and enhancing the planning, design, construction and operation of buildings. In 2020, Dubai will host the World Expo 2020 (formerly known as the World's Fair), and a key theme will be sustainability; thus, the emirate's emphasis on sustainability (and related, green build) is expected to continue.

Target green building sectors: The greatest area of planned green construction activity for UAE firms in the above-referenced survey is in the new institutional sector (government office buildings, hospitals and schools), which was reported by nearly three-quarters of responding firms. The other market segments reflecting strong planned green activity through 2016 include new commercial buildings (retail, office, hotels) and community projects. Because of the high level of new construction activity, it can be expected that retrofits are not prominent in green building forecasts for the UAE apart from buildings being extended and renovated, where such works require building permit from respective municipalities. Nonetheless, the topic of retrofitting is increasingly being raised by government officials, especially after the fire incident at the Address Hotel in Dubai in December 2015.

U.S. firms face tough competition from local property developers in the UAE, such as EMAAR, Aldar and others, though many possibilities for collaborating, advising and subcontracting do exist. U.S. firms should be prepared to pre-qualify with UAE developers and government agencies in order to respond to tenders.

The government of Dubai will make significant investments in construction in preparation of the World Expo 2020, for which 100 new hotels and numerous other event and infrastructure projects are planned. American companies exploring future business opportunities will need to demonstrate expertise to overcome Abu Dhabi's Pearl Rating

System processes and approvals and the Dubai Green Regulations.

Know Your Buyer

For building product exports, the importance of specific sales channels and buyer categories varies depending on the target export market. In UAE, ITA experience supporting U.S. building products exporters indicates the following assignment of priority among relevant sales channels:

Figure 2: <u>Sales Channels</u>	<u>Priority</u>		
	Low	Medium	High
Government entities	X		
Architects		X	
Design and build companies			X
Trade contractors		X	
Building facility managers			X
Distributors		X	
Showroom dealers	X		
Retailers		X	

Qatar

The construction industry in Qatar is projected to expand at a compound annual growth rate of 13.3 percent through 2018.⁵ Despite budget shortfalls and the government's efforts to slow down spending in some areas, no announcement of project cancelations have been made. Robust government spending is expected to continue in support of Qatar's National Vision 2030, which is geared to developing a knowledge-based economy that is diversified beyond the traditional energy (natural gas) sector. Part of the major infrastructure projects (road projects specifically) have been de-scoped, and this trend is expected to continue through the end of 2016. Large-scale government investment can be expected in the education and healthcare sectors. The government of Qatar also will make considerable construction investment in support of infrastructure and buildings required to host the FIFA World Cup in 2022, which is expected to include housing and other real estate development projects, in addition to stadium, hotel, transport and other infrastructure projects.

The Global Sustainability Assessment System (GSAS), developed in 2010 by the Gulf Organization for Research and Development (GORD), is Qatar's rating system for green buildings. With 140 sustainability assessment areas, GSAS is a comprehensive mechanism for promoting sustainable urban development while recognizing specific local requirements. Certification criteria are divided among eight elements (energy, water, indoor environment, cultural and economic value, site, urban connectivity, material, and management and operations), with the greatest weight assigned to the energy and water elements. GSAS was made part of the Qatar Construction Standards 2010. It is mandatory for all public and private sector projects to obtain GSAS certification.

Know Your Buyer

For building product exports, the importance of specific sales channels and buyer categories varies depending on the target export market. In Qatar, ITA experience supporting U.S. building products exporters indicates the following assignment of priority among relevant sales channels:

Figure 3: <u>Sales Channels</u>	<u>Priority</u>		
	Low	Medium	High
Government entities			X
Architects	X		
Design and build companies			X
Trade contractors			X
Building facility managers		X	
Distributors		X	
Showroom dealers		X	
Retailers			

In Qatar, architects typically approve or prequalify building material suppliers' product specifications but do not buy on behalf of the client. Such firms either have a sister trading company that would handle purchasing or would pass on the specifications to the main contractor to select the supplier.

Kuwait

Expected ongoing robust activity in Kuwait's construction sector is fueled in part by the Government of Kuwait's \$104 billion development plan, which includes the planned construction of eight new public hospitals and dramatic expansion of nine existing healthcare facilities. Public and private sector investment has fueled the continuing expansion of a wide range of residential and commercial construction projects. U.S. building products are well-received in Kuwait, and the country's construction professionals are familiar with U.S. construction techniques and materials. The Kuwait Green Building Council was launched in 2012 and is working to promote the U.S. Green Building Council's LEED green building rating system in Kuwait.

Oman

The construction industry in Oman is projected to expand at a compound annual growth rate of 13.3 percent through 2018.⁶ After the U.S.-Oman Free Trade Agreement came into force in 2009, U.S. building product exports to Oman grew an impressive rate. As the Omani leadership works to diversify its economy and attract foreign investment, it has placed a focus on improving sectors such as tourism, healthcare, higher education and various industrial sectors. Expansion of any of these arenas suggests facility construction that will create opportunities for U.S. exporters. Looking forward to 2018, continuing government investment can be expected in tourism facility and infrastructure investment, as well as institutional investments, including hospitals and schools.

Bahrain

The construction industry in Bahrain is projected to expand at a compound annual growth rate of 13.3 percent through 2018.⁷ The Kingdom's Economic Vision 2030 highlights the need for a more diverse economic base, with broader privatization, industrialization, and training and education of the Bahraini workforce. In support of this vision, the government is working to attract foreign investment to drive the expansion of six economic clusters: tourism, healthcare, education, information and communications technology fields, business services and professional services.

The U.S.-Bahrain Free Trade Agreement has been in effect since 2006, meaning U.S. building product

exports enjoy duty-free status. Following implementation of the FTA, the impacts of the global financial crisis hit and lingered in Bahrain, putting a downward drag on its construction market. While larger-scale public infrastructure projects continued to be funded, many luxury residential type projects were halted outright in the aftermath of the crisis. The Bahrain Sovereign Fund stepped in during 2013 to ensure their viability.

The government of Bahrain is expected to continue focusing on housing development, affordable housing, in particular, working together in public-private partnerships. In 2012, Bahrain's Ministry of Housing announced a \$9.6 billion five-year plan to build housing units and provide personal finance products.

Know Your Buyer

For building product exports, the importance of specific sales channels and buyer categories varies depending on the target export market. In Bahrain, ITA experience supporting U.S. building products exporters indicates the following assignment of priority among relevant sales channels:

Figure 4:		<u>Priority</u>		
		Low	Medium	High
<u>Sales Channel</u>				
Government entities				X
Architects	X			
Design and build companies			X	
Trade contractors			X	
Building facility managers			X	
Distributors	X			
Showroom dealers	X			
Retailers	X			
Other	X			

Challenges & Barriers to Sector Exports in GCC

Tariffs

U.S. building products enter the markets in Bahrain and Oman duty-free under the Free Trade Agreements the United States has with these countries. With regard to the other GCC Member

States, the current status of the GCC Customs Union means that products manufactured outside the GCC are subject to a common 5 percent import duty, with exceptions for select product categories that do not impact the building product. Products manufactured within one GCC Member State enter all other Member States duty-free. Some American companies whose products are used in construction, such as glass, have decided to open manufacturing plants in the region to take advantage of the GCC Customs Union.

Highly competitive market environment

The Gulf markets have close proximity to high-quality European products and strong logistics relationships with lower-cost suppliers in Asia. While enjoying a strong reputation for quality and reliability in the region, U.S. building product suppliers still must overcome transport costs and deliver on product performance and post-sales service requirements to compete in Gulf region markets. Winning sales requires regular direct engagement with buyers to distinguish specific product performance versus that of competitors. To provide needed sales follow-up support, U.S. exporters are well served by an in-country presence.

Trade promotion activities should consider multiple elements: attunement to country-specific market opportunities and the ability of the target trade event to perform a regional convening role for buyers. Reverse trade missions that bring Gulf buyers to the United States also are meaningful. Events should facilitate U.S. building product exporters' full elaboration of their products' green features and relevance to local rating systems.

Standards and conformity assessment

Under the GCC Standards Organization (GSO), the vision is to unify the Member States' standards and conformity assessment regimes. This remains a work in progress, and until a uniform GCC standard and conformity assessment process is established, each

Member State applies its own standards, conformity assessment and labeling requirements; in the case of the UAE, the standards and codes even differ between Abu Dhabi and Dubai.

While some international standards developed by U.S.-based standards development organizations (SDOs) have been adopted in various Member States, the U.S. industry has expressed concerns that some may be moving toward a more restrictive standards regime. Standards established by European SDOs are noted as gaining increased attention. In addition to a standards environment lacking in consistent clarity and transparency, industry has expressed concern about a similar lack of clarity in conformity assessment.

Many American companies in the region are largely staffed by sales, marketing and business development specialists, whom may not have expertise in regulatory environments or standards setting. As such, when local standards organizations reached out to U.S. businesses for comments on standards or other regulations, the responses were muted. With this in mind, it may behoove American companies to identify team members as POCs for standards developers and other regulatory agencies or work with local chambers of commerce or bilateral trade groups to coordinate industry input.

The full suite of USG tools that can be brought to bear in assisting exporters with standards and conformance issues is detailed in the Executive Summary and Findings section of this report.

Other options for addressing the markets

While exporting products from the United States is one approach to market penetration in the GCC, leading U.S. building product suppliers increasingly are sourcing products for sales in the GCC from non-U.S. manufacturing facilities they have established in the region or in other more proximate or lower-cost international markets.

Resources for U.S. Exporters

Please visit the country-specific sites listed below for information from the U.S. Commercial Service (CS) on:

- Market research
- Trade events
- Trade leads
- Services available to U.S. companies
- Contact information for CS offices throughout the region
- Info on subscribing to regular updates or connecting on social media
- Other information to assist U.S. exporters with Gulf Region export market development

Bahrain	http://bahrain.usembassy.gov/tradeandcommerce.html
Kuwait	www.trade.gov/kuwait
Oman	www.trade.gov/oman
Qatar	www.trade.gov/qatar
Saudi Arabia	www.trade.gov/saudiarabia
United Arab Emirates	www.trade.gov/uae

¹ Construction in the Saudi Arabia – Key Trends and Opportunities to 2018, Timetric (2016)

² Dodge Data and Analytics, World Green Building Trends 2016, Developing Markets Accelerate Global Green Growth, February 2016

³ Construction in the UAE – Key Trends and Opportunities to 2019, Timetric (2016)

⁴ SmartMarket Report, Global Green Building Trends, McGraw-Hill Construction

⁵ Construction In Qatar – Key Trends and Opportunities to 2018, Timetric (2016)

⁶ Construction In Bahrain – Key Trends and Opportunities to 2018, Timetric (2016)

⁷ Construction In Bahrain – Key Trends and Opportunities to 2018, Timetric (2016)